

## **Power politics: status of fuel and energy sector becomes matter of controversy for senior government officials**

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"I will not allow rape of the government" (Den, November 3, 2000), Ukrainian Prime Minister Victor Yushchenko announced after the Special Commission chaired by Secretary of the National Security and Defense Council Yevhen Marchuk made public its findings on November 2, 2000. The Commission was established about one month ago at the order of President of Ukraine Leonid Kuchma to verify the accuracy of information about the status of transactions made by fuel and energy sector enterprises to their suppliers, the state budget and extrabudgetary funds. "I will not allow molesting the government like it is being done now" (Chas, November 2, 2000), the Prime Minister was quoted as saying by other media. The public debate as to whether Ukraine's fuel and energy complex is capable of providing due services during the winter season has been brought to the sphere of individual political interests and business priorities.

### **The Issue**

Beside the current discussions of what future this Cabinet might face, the lack of coordination and agreement within the government should be regarded from the perspective of ongoing economic processes - for instance, privatization. Conflicts like this one within the executive branch may substantially enhance the general negative impression as to Ukrainian government's ability to apply the same transparent and fair rules to all, compromising the government as such. Given the exchange of accusations of incompetence and deliberate fraud, calls on potential foreign investors to take part in joint energy supply projects may attract only confirmed optimists. The situation in the fuel and energy complex has become a major issue of the current political battles in Ukraine. The conflict escalates, with every new round bringing new details and actors of the political performance. The context - the Russian Gazprom's plans to "bypass" Ukraine on its way to central- and western European consumers, Ukraine's gas debt to Russia, the future of the Odessa-Brody pipeline and prospects for the energy dimension of the GUUAM - makes the issue specifically intriguing.

### **Conflict Chronicle**

The current debate over the situation in the Ukrainian fuel and energy sector date back to the very appointment of Yulia Tymoshenko, MP and former leader of the of the United Energy Systems of Ukraine (UESU), once closely linked to Ukraine's ousted prime minister Pavlo Lazarenko, to the position of Vice Prime Minister for Fuel and Energy. The trend of extrapolating the energy sector's economic hardships to the domain of politics, relations and interests of individuals and groups was enhanced with the resignation, on June 15, 2000, of Minister of Fuel and Energy Serhiy Tulub. About a month earlier the tension, caused by disagreement to pursue reform of the fuel and energy sector as proposed by Yulia Tymoshenko, might have been an indirect reason for then Minister of Economy Serhiy Tihipko to take a leave on May 15 to run for a seat in the run-off for a Dnipropetrovsk region and quit upon having been elected to the parliament on June 25, 2000.

The current debate, however, is not about the process of reforming Ukraine's ailing fuel and energy complex, but about results of Yulia Tymoshenko's actions as its leader. The recent developments may serve as a good illustration to the suggestion that there is not fact that cannot be interpreted in different ways. As the energy-related debate has shown, "solid" figures and data may be used to back the whole spectrum of claims, and a final result may be accounted for by a specific "methodology", apparently, based on political calculations. Such an approach makes it rather difficult to find out what the real situation is.

The current debate was launched on October 10, 2000, when the parliament held "the government's day" to discuss the readiness of Ukraine's fuel and energy complex for the winter period. The government's efforts to ensure that consumers could receive due energy supply were based on the Resolution No. 976 "On Preparing Enterprises of the Fuel and Energy Complex for Stable Work During the Autumn and Winter Period of 2000-2001", approved by the Cabinet on June 16, 2000 - one day after the Fuel and Energy Minister Serhiy Tulub had submitted his resignation quoting major disagreement with the way the branch had been reformed. The task to ensure that all necessary measures were taken for preparing the sector for the winter period was officially given to Vice Prime Minister for Fuel and Energy Complex Yulia Tymoshenko. (For detail, see UCIPR Research Update No. 178 and No. 184 at <http://www.ucipr.kiev.ua>). Serhiy Tulub did not stay jobless for long: on

August 16, 2000 he was appointed to the position of a deputy to Secretary of the National Security and Defense Council of Ukraine Yevhen Marchuk.

The report on the efforts taken to reinvigorate the energy branch was presented to the parliament by Yulia Tymoshenko. Her presentation emphasized the problems the branch had suffered the previous year: "analysis of the performance of the fuel and energy complex enterprises during the past autumn and winter period proves serious shortcomings allowed during the previous years in the matter of providing the national economy and the population with electricity and heat energy and natural gas" (Den, October 11, 2000). That is why, according to Tymoshenko, by the beginning of this year the coal supply available at power stations totaled 1,239 thousand tons, 2.3 times less than by the beginning of 1999. Practically no fuel was left at two reactors of the South Ukrainian nuclear power plant (NPP) and the Rivne NPP.

Generally, Yulia Tymoshenko's speech was based on contrast between the past problems and recent achievements. She argued that "the amount of the fuel and energy complex production increased by 0.6 percent, [including] the increase by 0.1 percent in the oil processing industry, 2.2 percent in the gas industry and as much as 6.7 percent in the coal mining industry" (Molod Ukrainy, October 12, 2000). Within the recent nine months, the Vice Prime Minister maintained, "the government has collected UAH 1.3 billion more "real" money in the energy sector than would be collected within a year before" (Molod Ukrainy, October 12, 2000). The electricity fees, collected by the government, totaled UAH 2,826 million to enable the government to launch gradual renaissance of the energy sector, Yulia Tymoshenko argued.

In order to achieve those results, the government's report went on, "measures, adequate for the situation" had been taken, designed to create transparent, competitive and effective energy markets, to improve the system of payment for energy supply, to halt free riding in energy consumption and to introduce money-only payments (Uriadovyi Kurrier, October 11, 2000). The objective was sought to achieve by the government's move to cancel barter schemes in the practice of electricity payment, and to abolish the list of enterprises and organizations that could not be cut out from power supply no matter whether they paid their electricity bills or not.

Having listened to the report, the parliament "took the government's information to attention" and judged that the Cabinet's efforts to prepare the country for upcoming winter were "insufficient". Notwithstanding the optimistic picture offered by the Vice Prime Minister, the parliament's rather "cool" decision was caused by the other information, made public on the same day by the State Taxation Administration (STA). The "alternative" figures and data described the situation in the fuel and energy complex quite differently from the government's version. Paragraph 18 of the aforementioned Resolution No. 976, "On Preparing Enterprises of the Fuel and Energy Complex for Stable Work During the Autumn and Winter Period of 2000-2001" authorized the STA "to establish checkpoints at energy supplying companies at the level of districts, cities and regions in order to perform control over the transfer of payments for the consumed energy to those companies' distributing accounts." During "the government's day" in the parliament the STA disseminated its information about the status of tax collection in the fuel and energy complex and made public its own calculations regarding the performance of the branch that challenged the optimistic data quoted by Yulia Tymoshenko. The figures quoted in the report differed substantially, in a negative way, from those provided by the government. When asked to comment, Vice Prime Minister Tymoshenko announced that the discrepancy was caused by "differences in statistical approaches" and "outdated" information that had been used by the taxation agency (Studio 1+1, TSN, October 10, 2000).

By coincidence, the day before the debates on the matter began in the parliament the Coordination Committee for Fighting Corruption and Organized Crime held its session, chaired by President Leonid Kuchma. The report, presented by chairman of the Security Service of Ukraine (SBU) Leonid Derkach stressed the "special anxiety" about the situation in the fuel and energy complex. Specifically, it was announced that "in the current year, over 5 thousand crimes have been disclosed in the branch, most of them related to power abuse and embezzlement of state and collective property" (Uriadovyi Kurrier, October 11, 2000). The report also argued that "due to the lack of adequate control over the use of the money received from electricity consumers by energy supply companies, the indebtedness has increased to UAH 9.6 billion" (Uriadovyi Kurrier, October 11, 2000). Summing up the energy problems, President Leonid Kuchma ordered measures to be taken to overcome the payment crisis in the fuel and energy sector and stressed that the situation in the branch remained very tense. His opinion about the "tension" in the branch was supported by the data quoted by STA head Mykola Azarov who argued, among other things, that "from the coal producers, electricity producers and the Naftogaz Ukrainy the budget has received only the half of what has been quoted by the Cabinet. The variance of all other indicators is 40 to 60 percent" (STB, Vikna, October 10, 2000).

Given the variety of interpretations and calculation methodologies, the "misunderstanding" over the performance of the fuel and energy complex promptly became politicized: the quotation of different figures implicitly charged the high-ranking "commentators" on the energy matters with fraud. An emergent crisis of the government publicly involved different political sectors and business-related interest groups. The claim that "Ukrainian oligarchs" hinder the government's pursuit of economic reform was brought to the fore again. Yulia Tymoshenko's faction in the parliament, the Batkivshchyna, issued a statement accusing the parliament leadership of "anti-government" activity. The parliament staff responded by its own statement, demanding on the Batkivshchyna press service formal apologies for the accusations.

On October 13, President Kuchma ordered to establish a special commission that would verify the accuracy of information about the status of transactions made by enterprises of the fuel and energy complex to energy suppliers, the budget and extrabudgetary funds. Secretary of the National Security and Defense Council Yevhen Marchuk was appointed as chairman of the commission and given one week to verify the data provided by the two government agencies, analyze the status of "payment discipline" in the fuel and energy complex and perform internal investigation in case any irregularities surfaced. Although initially the commission had been expected to announce the results by October 19, the deadline was postponed till early November.

Speaking at the government's session on October 12, Prime Minister Victor Yushchenko argued it was "inadmissible" that the "arithmetic discussion" between the STA and the energy sector leadership about the accounting and reporting data for the fuel and energy complex had been unilaterally made public in the STA press release. The Prime Minister described the actions of the STA leadership as "not wise" and announced that he had spoken to STA head Mykola Azarov to emphasize that the attitude of substituting the joint work on addressing the problems with purely political debate methods was inadmissible (Den, October 12, 2000). Commenting on his leadership view on the issue, STA spokesman Vitaliy Lukianenko argues there had been no intention to ruin the government's unity or attack it, and that the STA press statement had not contain any evaluation or judgement but rather had appeared because Yulia Tymoshenko had submitted statistical materials to the STA for verification. "[We] verified [them] and found the discrepancy," he said (Den, October 14, 2000).

The Prime Minister also ordered to form a commission that would perform internal investigation of the facts. Commenting on his decision, Victor Yushchenko announced that "everyone should perform his functional duties, and not inspire political adventures" (Den, October 14, 2000). The commission, chaired by First Vice Prime Minister Yuri Yekhanurov, produced no unexpected results and judged the figures and data quoted by Yulia Tymoshenko to be true. Specifically, the commission's report stated that "the government has really achieved the growth of monetary payment for consumed electricity and heat energy, the payment discipline and the level of payment for the consumed gas have been improved, and the monetary transactions from the [fuel and energy complex] to budgets of all levels have increased (Ukraina i Svit Siohodni, October 28, 2000).

Obviously, the "arithmetic" intrigue did not end at that point. On November 1 the special commission established by the President's order to check on the data quoted by the leadership of the fuel and energy complex and the STA announced it had finalized its work. The day before the official term of the calculations and verification expired, on October 30, President Leonid Kuchma stated publicly that he had "no reason whatsoever to question the truth of the taxmen's information" (Holos Ukrainy, November 2, 2000), thus, having clearly taken the side of the STA in the debate. In his turn, Yevhen Marchuk straightforwardly announced that "the government's information on important indicators of the status of FEC [i.e., fuel and energy complex] does not correspond with reality" (Den, November 3, 2000) and that his commission had "found artificial augmentation of indicators of payments for electricity and transfers of money to [energy] generating companies from the market". According to the commission's findings, the quoted revenue amount (UAH 1.2 billion) included the UAH 500 that had been previously received as loans and payments for promissory notes. The formal conclusion was signed by 15 members of the commission, including members of the Cabinet: Minister of Fuel and Energy Serhiy Yermilov and Minister of Economy Vasyl Rohovyi, as well as chairman of the Accounting Chamber Valentyn Symonenko and deputy chairman of the commission, head of the parliament's Committee for Fuel and Energy Complex Oleksandr Hudyma. The latter was the person who had proposed the parliament during the October 10 hearing that the resolution should "recognize the work of the government in the preparation for the winter season as "insufficient" and more abrupt formulations should be avoided" (Molod Ukrainy, October 12, 2000).

The Marchuk commission concluded that "The Cabinet of Ministers of Ukraine reduced by more than twice the amounts of mandatory payments to the State Budget of Ukraine by FEC enterprises. The verification confirmed the data of the State Taxation Administration about the amount of the payments due at UAH 16,443 million (the Cabinet's data [are] UAH 8,095 million). The Cabinet of Ministers

increased the figures of netting operations (UAH 3,500 million), the figure of payment by the FEC enterprises to the State Budget (to UAH 6,400 million). Hence, real transactions to the State Budget totaled no more than UAH 2,900 million. This corresponds with the data [quoted by] the State Taxation Administration (UAH 2,736 million), supported with relevant reports of the FEC enterprises" (Den, November 3, 2000). The media were provided with a long list of discrepancies between the FEC data quoted by the government and those quoted by the STA and the Marchuk commission.

The debate received a new boost when Prime Minister Yushchenko stated publicly that "the submission of different data about the situation in the fuel and energy complex by two government agencies is an exclusively political theme" that was not an issue of figures but that of "political spectacles" (Silski Visti, November 2, 2000). The "political spectacles" metaphor was also used by Yulia Tymoshenko to comment on the report of Yevhen Marchuk's commission. "The people who signed that report had different intentions. There is a group of people who constantly treat certain orders of their bosses with fear - hence, wearing Pampers all the time", she said (Chas, November 10, 2000). In her opinion, the commission's conclusion was "a political document, its principle purpose was to discredit the government. Clever, normal hopes of the President to receive objective information, unfortunately, remained but hopes" (Chas, November 10, 2000). Her opinion was supported by the Batkivshchyna party, having announced that the conclusions of the National Security and Defense Council on the situation in the FEC were "unprofessional, biased and untrue" and that they would "not survive public debate" (Silski Visti, November 10, 2000).

#### Interim Outcomes

On November 10, 2000, President Kuchma stated publicly that the situation with the conclusions of the special commission for verifying the accuracy of the Vice Prime Minister's report about the status of the fuel and energy sector had received some political shades. "I have given everyone a chance to calm down," the President said (Ukraina Moloda, November 11, 2000). Whatever should follow the "calming down" procedure, it will have some impact of the actors' careers. Thought, the resignation of Victor Yushchenko and/or Yulia Tymoshenko in the near future is hardly likely. An indirect argument in support of this view is at least the fact that he has been given increasingly broad TV presence. Moreover, no massive "public" campaign of criticism of the Prime Minister's actions has occurred so far. Hence, it seems like both Yushchenko and his opponents have decided to slow down until a more suitable - and closer to the official start of the election race - occasion.

Meanwhile, it is increasingly obvious that neither the situation in and around the fuel and energy complex nor the special commission's activity will live up to the engaged "public debate" but discredits the government with the hands of the government instead. No matter which of the sectors of the executive branch has misled the other agencies and the society - consciously or otherwise, based on figures, personal views or interests. What matters is whether the drawbacks will be recognized and corrected. After all, Ukrainian government's ability to survive the cold winter will depend not on piles of documents, releases and records, but on ability to provide heating and light to "humble Ukrainians' " homes. This factor is likely to become a major "judgement" in the energy disputes.